

SECTION II – SPECIFIC COMPLIANCE**SCHOOL DISTRICT BOOKKEEPING**

The State Board of Education has, in accordance with law, prescribed a uniform double-entry system of bookkeeping for use in all school districts and is authorized to compel its use. (*N.J.S.A.* 18A:4-14 and *N.J.A.C.* 6A:23-2.1)

Separate accounts must be maintained for the funds and account groups. The following is a listing of those funds and groups, and the crosswalk to the GASB 34 Model:

Pre-GASB 34 Districts**Governmental funds**

Fund 10 (General fund)
Fund 20 (Special revenue fund)
Fund 30 (Capital projects fund)
Fund 40 (Debt service fund)

N/A

Proprietary funds

Fund 50
Enterprise fund
Internal service fund

Fiduciary funds

Fund 60 (Trust and agency funds)
(expendable & non-expendable trusts)
Fund 70 (Student activity funds)

Account Groups

Fund 80 (General fixed assets account group – GFAAG)

Fund 90 (General long-term debt account group - GLTDAG)

GASB 34 Districts**Governmental funds**

Fund 10 (General fund)
Fund 20 (Special revenue fund)
Fund 30 (Capital projects fund)
Fund 40 (Debt service fund)

Fund 60 (Permanent fund)

See Note-1

Proprietary funds

Fund 50
Enterprise fund
Internal service fund

Fiduciary funds

Fund 60 (Private purpose trust and agency funds)

Fund 70 (Student activity funds)

See Note -2

Maintained for record keeping purposes; balances incorporated into the accrual statements (A-series)

Maintained for record keeping purposes; balances incorporated into the accrual statements (A-series)

Note - 1 Previously non-expendable trust funds which have resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs – that is, for the benefit of the district.

Note - 2 Previously expendable or non-expendable trusts, which benefit those other than the district. When the district uses the reimbursable or pay as you go method for unemployment, the Unemployment Compensation Trust would be included here. Also, the resources and changes in net assets of a private purpose scholarship fund would be reported here. These funds are not included in the accrual level statements (A - series). Expendable trusts that benefit the district should be included in the special revenue fund.

SECTION II – SPECIFIC COMPLIANCE
FUND 10 – GENERAL FUND

Board Secretary and Treasurer Reports

In accordance with *N.J.S.A.* 18A:17-9, the board secretary shall report to the board at each regular monthly meeting the amount of total appropriations and the cash receipts for each account, and the amount for which warrants have been drawn against each account and the amounts of orders or contractual obligations incurred and chargeable against each account since the date of the last report. At the close of each fiscal year, the board secretary shall present to the board a detailed report of its financial transactions during such year and file a copy with the county superintendent on or before August 1 of each year.

In accordance with *N.J.S.A.* 18A:17-36, the treasurer shall report to the board monthly a detailed account of all receipts, the amounts of all warrants signed by him/her since the date of the last report and the accounts against which the warrants were drawn, and the balance to the credit of each account. At the close of each fiscal year, the treasurer shall present an annual report showing the amounts received and disbursed for school purposes during said year and file a copy with the county superintendent on or before August 1 of each year.

The monthly board secretary and treasurer reports are to be reconciled on a monthly basis.

Cash Reconciliation

The cash accounts must be reconciled. Reconciliation of payrolls and bond and interest accounts are to be made in all districts maintaining such accounts and must be permanently recorded and filed for future reference. The auditor must verify the reconciliation of all cash accounts of the school district.

Bank reconciliation statements are not required to be exhibited in the audit report. Workpapers must be available for review upon request.

Petty Cash Funds

N.J.A.C. 6A:23-2.9 states "Pursuant to the provisions of *N.J.S.A.* 18A:19-13, a district board of education or charter school board of trustees may establish on July 1 of each year, or as needed, a cash fund or funds for the purpose of making immediate payments of comparatively small amounts".

To be in compliance with the administrative code, the board must establish the amounts authorized for each fund, and set the maximum allowable individual expenditure. The board must designate custodians for each fund and must establish the minimum time period for the custodian to report on fund activity. Petty cash accounts must be closed out at year-end and unexpended cash deposited in the bank by June 30th.

SAS #70 Reports

Depending upon the nature of the services provided, AICPA Statement on Auditing Standards No. #70 (as amended by SAS #88) reports may be required from software vendors, payroll service vendors, and other service organizations. SAS #88 clarified SAS #70 by stating that SAS #70 is applicable if an entity obtains services from a service organization that are part of the entity's information system. SAS #88 explains what constitutes "part of the entity's information system". If SAS #70 is applicable, the service organization auditor will issue one of the following two types of reports, depending upon circumstances and requirements:

- Type I – Report on policies and procedures placed in operation. This report may be an effective and efficient way for the district auditor to gain an understanding of the internal controls of the service organization.

- Type II – Report on policies and procedures placed in operation and tests of operating effectiveness. This report includes a description of the tests of operating effectiveness and the results of those tests. If the controls are present and operating effectively, the district's auditor may choose to assess control risk below the maximum for financial statement assertions related to the service organization transactions. This is a decision made by the district auditor.

Auditors are advised to review Chapter 4, Field Work Standards for Financial Audits, of the Government Auditing Standards (Yellow Book) available electronically at the web site www.gao.gov/govaud/ybhtml for further guidance on internal controls.

It has been learned that certain payroll service vendors are actually controlling the electronic fund transfers of school districts' cash from their payroll agency checking accounts for the purpose of making payments to various governmental and other agencies. This procedure violates the requirements of *N.J.S.A. 18A:17-34* and *N.J.S.A. 18A:19-1* through 4. School districts are not permitted to allow control of cash payments to any payroll service vendors. Local school district auditors must recommend the discontinuance of this type of arrangement in the Auditor's Management Report.

N.J.S.A. 52:27D-20.1 Contracts for third-party disbursement services, permitted was passed in 2000 and states as follows:

"Notwithstanding the provisions of the "Local Fiscal Affairs Law," *N.J.S.A. 40A:5-1* et seq., or any other law, rule, or regulation to the contrary, the Local Finance Board, in consultation with the Commissioner of Education, may adopt rules and regulations permitting local government units and boards of education to contract with third-party disbursement service organizations in order to make payments and execute financial transactions for those purposes and under such conditions as permitted by the Local Finance Board."

It is anticipated that the draft rules will be published in the NJ Register by September 2002. Until the rules are formally adopted, districts have no authority to engage a vendor for third party disbursements such as payroll services when the vendor controls the cash account or provides a service that would violate *N.J.S.A. 18A:17-34* or *N.J.S.A. 18A:19-1* through 4.

Investments

N.J.S.A. 18A:20-37 regarding school district investments was amended by Chapter 148, P.L. 1997, which was signed into law on June 30, 1997. This law significantly expanded the types of securities that the board of education can authorize to be purchased and set forth general investment practice requirements.

Districts were required to implement GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," when reporting their investments beginning in the June 30, 1998 CAFR. This statement establishes fair value accounting and financial reporting standards for certain types of investments held by governmental entities other than external investment pools. This should have a limited impact on school districts. For government entities other than external investment pools, this statement establishes accounting and financial reporting standards for the following investments: participating interest-earning investment contracts, external investment pools, open-end mutual funds, debt securities, and equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values.

For those investments that qualify under GASB 31, the districts must report those investments at fair value on the balance sheet and all investment income, including changes in fair value, must be reported as revenue in the operating statement. If the change in fair value is identified separately as an element of investment income, it must be captioned, *net increase (decrease) in the fair value of instruments*. Realized gains and losses should not be displayed separately from the net increase (decrease) in the fair value of investments in the financial statements, although an entity may disclose the amount of realized gains and losses in the notes to the financial statements. Fair value is the amount at which a financial

instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an investment, the fair value should be the total number of trading units times the market price per unit. Investments in participating interest-earning investment contracts should also be reported at fair value. Participating contracts are investments whose value is affected by market changes. If these contracts are negotiable or transferable, or their redemption value considers market values (interest rate), they should be considered participating. Nonparticipating contracts such as nonnegotiable certificates of deposit should be reported using a cost-based measure, unless the fair value of these contracts is not significantly affected by the impairment of the credit standing of the issuer or other factors.

Governmental entities other than external investment pools may report money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. For example a five-year U.S. Treasury bond purchased nine months prior to maturity would be reported at its' amortized cost. Money market investments that are short-term and highly liquid debt instruments such as commercial paper, banker's acceptances, and U.S. Treasury and agency obligations should be reported at amortized cost.

For investments in open-end mutual funds, fair value should be determined by the fund's current share price at June 30, 2002. For investments in external investment pools that are not SEC registered, fair value should be determined by the fair value per share of the pool's underlying portfolio, unless the pool is a 2a7-like pool (a pool that is not registered with the SEC but has a policy that it will operate consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940). This rule allows the use of amortized cost to report net assets to compute share prices if certain conditions are met.

Districts should reference GASB Statement No. 31 for the necessary disclosure requirements and for additional guidance on the calculation of fair value, the increase or decrease in the fair value of investments and those investments that are subject to or exempt from the fair value reporting requirement.

The implementation of GASB Statement No. 31 does not supersede the required disclosures currently included in the CAFR in accordance with GASB Statement No. 3. It represents a change to the method at which investments are valued for accounting and financial reporting and provides for additional disclosures regarding the valuing of investments.

Revenues and Receipts

Revenues accruing to the board of education for the period under audit must be verified. Receipts for the year and accounts receivable at the close of the year must be verified as to source and disposition. Revenues must be delineated by type and recorded in the proper fund. Common revenues and the funds in which they are reported are included in The Uniform Minimum Chart of Accounts (Handbook 2R2 for New Jersey Public School Districts), as amended by CEIFA. The auditor must comment in detail on any irregularity in the method of handling receipts and revenues as a result of audit tests performed.

Extraordinary Aid

Districts that receive notification of their approval to receive 2001-02 extraordinary aid in accordance with CEIFA are directed to recognize the approved amount as Other State Aid (10-3190) either during the 2001-02 or 2002-03 fiscal year and establish a corresponding receivable, as the actual payment is not expected to occur until after June 30, 2002. This amount can be excluded from the June 30, 2002 excess surplus calculation **only** if the district can clearly document that they did not budget this additional aid during the 2001-02 fiscal year for which they filed an application. Generally this exclusion from the excess surplus calculation will require the district to experience unique circumstances surrounding the expenditure of these funds.

The exclusion of extraordinary aid from the audited excess surplus calculation should be documented on the "Extraordinary Aid Adjustment" line in question 19 of the Audit Questionnaire. This will also require the submission of a detailed letter explaining the circumstances for the exclusion and if applicable, how it relates to the appearance of the excess surplus warning message on the Audit Summary (audsum) Worksheet transmittal form.

District Taxes

District taxes must be recorded in the fund for which they were voted (Type II) or were certified by the Board of School Estimate (Type I). Additional amounts certified to the county board of taxation after the issuance of tax bills by the municipality will be shown as an adjustment on the district's subsequent year's certificate and report of school taxes. These adjustments are generally the result of Commissioner restorations for budget appeals and/or additional certifications for unanticipated debt service expenditures. These additional certifications should be reported as revenue via the accrual of a tax levy receivable.

N.J.S.A. 54:4-75 states "The governing body of each municipality shall pay over to the Treasurer of School Moneys, in the case of school districts in which appropriations for school purposes are made by the inhabitants of the school district, within forty days after the beginning of the school year, twenty percent (20%) of the appropriation for local school purposes, and thereafter, but prior to the last day of the school year, the balance of the moneys raised in the municipality for school purposes in such amounts as may from time to time be requested by the Board of Education, within thirty days after each request."

The auditor should comment on any uncollected taxes as of June 30th (other than the special accruals referred to above), and make a recommendation that the board of education request the remittance of the balance from the municipality.

Tuition (*N.J.A.C.* 6A:23-3.1)

Tuition revenue is recorded in the general fund. The procedures for determining tuition rates are detailed in *N.J.A.C.* 6A:23-3.1. Because it is "measurable and available" the entire tuition charged for the school year is revenue of the year even though part of the charge is uncollected at year-end. Tuition or program fees should not be charged for accredited Adult Education programs operating for the purposes outlined in *N.J.S.A.* 18A:50-12, since pupils enrolled in such programs are included on the Application for State School Aid. Fees collected for non-accredited Adult Education programs are miscellaneous general fund revenue, not tuition.

Local school district auditors must compare tentative tuition charges in the current fiscal year to the rate certified by the Department of Education. The auditor must comment on whether appropriate billing adjustments have been made for the differences between tentative and actual charges. The tuition adjustments made in 2001-02 would relate to the certification of 1998-99 rates for regular tuition. Consult *N.J.A.C.* 6A:23-3.1(e). Auditors should also consult NJ DOE Policy Bulletin 100-1 issued in December 1993 (Resource Room Tuition). Local school district auditors must consider *N.J.A.C.* 6A:23-3.3 for auditing tuition rates for county vocational schools; and *N.J.A.C.* 6A:23-3.4 for auditing rates for county special services schools when these types of LEAs are audited.

Local school district auditors must perform procedures to determine that the following requirements are met:

1. The district used the Budget Software tuition worksheet (only applicable to regular districts) or another Department of Education prescribed method for estimated tuition charges (Estimated Cost Per Pupil for Tuition Purposes).
2. Receivables and/or payables are based upon uncollected tuition billed.

3. Regular tuition adjustments based upon Department of Education certification of rates are not recognized as revenue and/or expenditures until the third year after the contract year and that the tuition adjustments are correctly reflected in the amounts reported as tuition revenue (receiving district) or tuition expenditures (sending district).
4. If at the end of the contract year a district board of education anticipates that a large tuition adjustment will be required in the third year following the contract year, the district board of education may restrict fund balance up to 10 percent of the estimated tuition cost in the contract year, in a legal reserve for tuition adjustments. Full appropriation shall be made in the third year and any remaining balance shall be reserved and designated in the subsequent year's budget. (*N.J.A.C. 6A:23-3.1(f)(8)*. (See the section in this Audit Program on Excess Surplus.)

Local school district auditors must make appropriate comments and recommendations for any findings related to these procedures.

Reporting On-Behalf Payments

Governmental Accounting Standards Board Statement No. 24 requires that an employer government recognize revenue and expenditures for on-behalf payments for fringe benefits and salaries. On-behalf payments for fringe benefits and salaries are direct payments made by one entity (the paying entity or paying government) to a third-party recipient for the employees of another legally separate entity (the employer entity or employer government). In applying this accounting directive in New Jersey, districts are required to include in their CAFR as both a revenue and expenditure both the pension contributions made directly to the TPAF by the state on their behalf, as well as the reimbursed social security amounts related to its employees that are TPAF members. The sample CAFR reflects the required presentation and the sample pension footnote includes the required disclosures. The department annually provides districts with the information on the amounts paid on their behalf for employer contributions to the TPAF.

Districts should prepare a schedule of the amounts reimbursed by the state for the current year FICA employer contribution for its TPAF members on an accrual basis. That is, the current year amount equals total cash reimbursement received during the current year less the prior year June 30th receivable amount plus the current year June 30th receivable balance. **The on-behalf payments will be included in the CAFR as non-budgetary revenue and expenditure items, similar to the reporting of assets acquired under capital leases.** Districts are not required to include these amounts in their annual school budgets or monthly reports of the board secretary.

Refunds

Refunds on current year expenditures are a credit to the applicable expenditure line account. Refunds on prior year expenditures, and sales of books, and manual training materials and products are miscellaneous income, not refunds. Proceeds from the sale of land, buildings and equipment are other financing sources.

Telecommunications Act of 1996 – Universal Service Fund (E-rate)

The Schools and Libraries Universal Service Fund, known as the “E-rate” was created as part of the Telecommunications Act of 1996 to provide affordable access to modern telecommunications and information services to all eligible schools and libraries in the U.S. The School and Libraries Corporation (SLC) was established by the FCC to administer the Schools and Libraries Universal Service Fund. All public and private schools and libraries qualify for funding based on their level of economic disadvantage (based on the percentage of students eligible for the national school lunch program) and their location, rural or urban. Districts will be notified regarding actual funding. The offset to the reduction in the expenditure is either to accounts receivable if a refund is due or to accounts payable if unpaid at June 30, 2002. Additional information is available at the Department of Education, Office of Technology website

at www.state.nj.us/njded/techno/toc.htm and at the School and Libraries website at www.sl.universalservice.org.

Cancellations

Cancelled prior year contractual orders and canceled prior year tuition receivables are reflected in the audit report as revenues and expenditures, respectively. Cancellations of prior year reserve for encumbrances increase the amount available for expenditure in the current year.

Abbott Parity Remedy Aid

The 2001-02 *Abbott v. Burke* Parity Remedy Aid for eligible Abbott districts will be accounted for in the general fund revenues and appropriations of the district. In accordance with the court decision, the State is required to deduct an amount equal to 2 percent of the district's Abbott Parity Remedy Aid to support required expenses. The district is required to budget for this purpose in account #11-190-100-800.

Health Insurance Policies

The department issued a hotline concerning audit issues/procedures regarding certain insurance policies held by New Jersey school districts dated August 30, 1995. At that time, we were seeking an opinion from the Office of the Attorney General on questions raised regarding the custody of funds and payment of claims. In response to that request, we were advised that the enactment of Chapter 74, P.L. 1995 authorized school districts to enter into minimum premium insurance policies with insurance companies authorized to do business in the state although those policies may involve different cash management methods than those required by existing statute.

The hotline was issued after review of policy terms and discussions with both public school accountants and insurance company representatives. Based on that review, the following issues were identified:

Districts with minimum premium policies commonly have three accounts with the carrier: 1) a termination reserve account, 2) a claims account, and 3) a premium stabilization account. The termination reserve account generally represents funds earmarked for the district's liability for claims which have been incurred but not reported (IBNR), also known as the "run-off" liability. The IBNR liability amount is calculated annually by the carrier's actuaries and provided to the policyholder. The claims account is used for the payment of claims filed. The contracted monthly premium estimate is deposited into this account. The monthly deposit may or may not include the administrative fee paid to the carrier. In some cases, the fee is a separate remittance. The premium stabilization accounts are used as a mechanism to smooth insurance premium payments. Commonly, any funds remaining in the claims account at the end of the year are transferred to the premium stabilization account for use in future years in the event of "premium" increases. Premium stabilization funds are often attached to participating and fully funded policies in which rebates are based on a retrospective review of claims filed during the policy period. These funds (rebates) are maintained in an account, in the district's name, and are used to smooth future years' premium payments. Payments from these accounts for other than insurance premiums are prohibited and circumvent the budgetary process.

In the past, the aforementioned accounts may have not been reflected in the district accounting records or were inaccurately reported as fund balance. Public school accountants should review the terms of district policies and statements/monthly activity reports issued by the carrier. If the district has a minimum premium policy a confirmation should be issued to the insurance carrier regarding the following:

- The existence of and amount of June 30th balances in accounts in the district's name held on their behalf by the carrier*
- District liability for the IBNR claims at June 30th

- District liability for claims that were filed but unpaid at June 30th
- Composition of the accounts (what are the types of underlying investments made on the district's behalf)*
- Investment income earned during the year on district funds held by the carrier*

Auditors may wish to obtain confirmation from the carrier that the expenditures made from the claims accounts were for valid claims if direct testing is not possible from district records. Items noted with an (*) should be confirmed in situations where it appears that a premium stabilization account exists under a participating or fully funded policy.

The confirmed information as well as the balances in any accounts related to the policies that are held by the district itself should be used to determine the proper presentation in the CAFR. The assets (total of the June 30th account balances) will be compared to the related liabilities (total of the June 30th IBNR claims and claims in process at June 30th). Any excess assets should be included in the amount reported as unreserved general fund surplus. If the liabilities exceed the assets, the district's unreserved general fund surplus must also be considered. The accrual made for the claims should not put the general fund into a deficit position. That is, the total liabilities should be subtracted from the total of the June 30th unreserved general fund surplus plus the total assets. The amount of liabilities in excess of the total of surplus and assets should be shown as a liability in the general long-term debt account group (**GASB 34 Model – in the district wide Statement of Net Assets**) and the June 30th general fund unreserved surplus reported as zero. For minimum premium policies, the current year expenditures reported for insurance premiums/claims should represent the total of the amount of claims and administrative fees paid in the current year related to the current year, the accrual for the unpaid claims in process, and the change in the June 30th balance in the IBNR liability between the current year and the prior year. For any type of policy, it must not include any excess premium payments transferred to a premium stabilization account.

The funds held by the district or the carrier on the district's behalf are included in the general fund balance sheet as cash, cash equivalents, or investments.

The June 30th general fund accounts payable balance should include the amount of claims in process as of that date. It should not include the IBNR liability. The IBNR liability should be reported in the general fund balance sheet or general long-term debt account group as an accrued liability labeled "Accrued Liability for Insurance Claims".

The notes to the financial statements should clearly disclose the terms of the policies and provide explanations of the related balance sheet accounts.

Sale and Lease-back Contracts

N.J.S.A.18A:20-4.2 authorizes boards of education to enter into sale and lease-back contracts on certain instructional materials (i.e. textbooks). The district can acquire through sale and lease-back textbooks and non-consumable instructional materials provided that the sale price and principal amount of the lease-back do not exceed the fair market value of the textbooks and instructional materials and that the interest rate applied in the lease-back is consistent with prevailing market rates or is less. The lease-back can be for any term not exceeding in the aggregate of five years.

Proceeds from the sale and lease-back of textbooks and non-consumable instructional materials shall not be included in the calculation of excess undesignated general fund balance during the budget year in which they are realized. A board of education may establish a reserve account in the general fund with all or part of the proceeds from the sale and lease-back provided that subsequent appropriations from the reserve account shall only be made within the original budget certified for taxes or as approved by the Commissioner for good cause.

If the board of education establishes a reserve in the year the proceeds are realized, then the calculation of excess surplus will not include the June 30 legally restricted reserve balance in that year and future years. The exclusion of sale and lease-back funds from the audited excess surplus calculation should be documented on the “Sale and Lease-Back” line in question 22 of the Audit Questionnaire.

Required Maintenance

Pursuant to *N.J.S.A. 18A:7G-9* and *N.J.A.C. 6:24-6.1*, beginning in ten years following enactment of the act, to receive funding under EFCFA districts will be required to demonstrate a net investment in required maintenance of at least 2% of the replacement cost of the related school facility (determined pursuant to subsection b. of section 7). For new construction, additions, and school facilities aided under the act, beginning in the fourth year after occupancy of the school facility, districts must demonstrate an investment in required maintenance in the prior year of at least two-tenths of 1 percent of the replacement cost of the school facility.

To support the demonstration of this requirement, beginning with data for fiscal year 2000-01, districts must include a schedule of required maintenance expenditures by school facility (as defined under *N.J.A.C. 6:24-1.3*) in the CAFR. For reporting 2001 and 2002 required maintenance expenditures (11-000-261-xxx), a district may allocate the total to each school facility and other facilities by proration according to its gross square footage. (*N.J.A.C. 6:24-3.1(d)1(i)(1)*). Beginning in 2002-03, districts will be required to maintain their accounting records for required maintenance at the school facility level and will be required to “provide the expenditure records, detailed by school facility, at fiscal year end for verification by the district auditor” (*N.J.A.C. 6:24-2.2(e)*) for reporting in 2003 and beyond.

A sample Schedule of Allowable Maintenance Expenditures (Exhibit J-1a) is included on the following page. The schedule should indicate the project number(s) (if any) as assigned by the department upon project approval and determination of preliminary eligible costs (PEC) in the column preceding the most recent year expenditures. If a district has a school facility for which it has no project numbers, it should indicate “N/A” in the project number column. Required maintenance expenditures for other facilities are reported in the aggregate by year.

**ANYTOWN SCHOOL DISTRICT
GENERAL FUND
SCHEDULE OF REQUIRED MAINTENANCE FOR SCHOOL FACILITIES
For the Fiscal Year Ended June 30, 20X2**

**UNDISTRIBUTED EXPENDITURES - REQUIRED
MAINTENANCE FOR SCHOOL FACILITIES
11-000-261-xxx**

		2002	2001
* School Facilities	Project # (s)		
Building A	NA	\$ 35,115	\$ 34,092
Building B	4800-055-R01, SP200303	158,129	153,523
Building C	NA	121,519	117,980
Building D	0570-030-R01	67,959	65,980
Total School Facilities		<u>382,722</u>	<u>371,575</u>
Other Facilities		<u>1,701,143</u>	<u>1,612,659</u>
Grand Total		<u><u>\$ 2,083,865</u></u>	<u><u>\$ 1,984,234</u></u>

* School facilities as defined under EFCFA.
(N.J.A.C. 6A:26-1.2 and N.J.A.C. 6:24-1.3)

Restricted Appropriations/Balances

Under current New Jersey Administrative Code, budgeted appropriations are deemed restricted when associated with a capital outlay spending growth limitation adjustment (SGLA) or an additional spending proposal. The "Spending Growth Limitation Summary" statement from the 2001-02 Annual School District Budget Statement and the cover page of the 2001-02 Annual School District Budget Statement Supporting Documentation will reflect the district's status for capital outlay SGLA's and additional spending proposals, respectively. Additionally, districts with capital outlay spending growth limitation adjustments were provided with a memorandum from the department confirming the actual adjustment amount included in the 2001-02 budget certified for taxes.

Details on restricted appropriations/balances follow:

N.J.A.C. 6:19-2.7(a) Adjustments to Spending Growth Limitations-Capital Outlay

A **capital outlay spending growth limitation adjustment** is supported by a formal board resolution which contains a narrative description of the capital purposes and the full amount to be included in the base budget, the need for and the amount of the adjustment, and a statement that said purposes must be completed by the end of the budget year and cannot be deferred or incrementally completed over a longer period of time. The associated appropriations are included in the base budget submitted to the voters or board of school estimate, and do not require an additional tax levy question.

N.J.S.A. 18A:7F-5d includes restrictions on the transfer of funds between capital outlay and current expense accounts for any district receiving a capital outlay spending growth limitation adjustment and also excludes the adjustment from the base amount that will be used to calculate a district's maximum permitted net budget in the subsequent year. *N.J.A.C. 6:19-2.7(a)* includes restrictions that the total capital outlay portion of the budget is restricted. That is, any unspent or unencumbered funds must be appropriated for tax relief in the next budget certified for taxes. It also requires that funds budgeted within capital outlay for individual projects are restricted to their original purpose unless an exception is granted by the Commissioner due to unforeseeable conditions which result in other urgent capital outlay needs. Transfers are allowed between approved projects.

When a reservation of fund balance is established for unexpended or unencumbered funds pursuant to a capital outlay spending growth limitation adjustment, the annual independent audit shall contain a note to the financial statements indicating the reserved fund balance amount, source and the fiscal year in which it will be appropriated. The financial statements should reflect the following equity account in the general fund: reserved fund balance-legally restricted appropriations.

N.J.A.C. 6:19-2.4 Additional Spending Proposals

Additional spending proposals are supported by (1) a formal board resolution, "Separate Proposal Summary," (2) an advertised description of the purpose or purposes and amount, (3) a separate ballot question or questions for the associated tax levy, (4) an itemized accounting for the appropriations, and (5) a merged final budget including the base budget and approved appropriations.

N.J.A.C. 6:19-2.4(g) requires that amounts approved by the local voters or board of school estimate or amounts restored by the municipal governing body or bodies after rejection by the local voters shall be used exclusively for the purpose(s) contained in the associated question(s). Additionally, each question must contain sufficient funds to carry out the specific purpose or purposes contained therein and no funds shall be included in the base budget for implementing such purposes. The district board of education is required to maintain a separate accounting of expenditures for each question and approved amounts that remain unexpended or unencumbered at the end of the school year shall either be anticipated as a part of the designated general fund balance of the subsequent school year budget or reserved and designated in the second subsequent school year budget.

Restricted Appropriations/Balances (Continued)

When a reservation of fund balance is established for unexpended or unencumbered funds pursuant to an additional spending proposal, the annual independent audit shall contain a note to the financial statements indicating the reserved fund balance amount, source and the fiscal year in which it will be appropriated. The financial statements should reflect the following equity account in the general fund: reserved fund balance-legally restricted appropriations.

Pursuant to *N.J.A.C. 6:19-2.4(f)*, proposed expenditures that are rejected by the local voters, or board of school estimate and not restored by the local governing body or bodies, are final and no modifications of the base budget shall be made to execute such purposes rejected and not restored.

Capital Reserve Account - General Fund

The capital reserve account (*N.J.A.C. 6A:26-9.1*) maintained in the general fund allows a district to accumulate funds for future capital projects. A capital reserve account is established by board resolution, a copy of which must be filed with the County Office.

The Educational Facilities Construction and Financing Act (EFCFA), (N.J.S.A. 18A:7G –1 et seq.), was signed into law on July 18, 2000. This law provided for the establishment of a capital reserve account within 90 days of the effective date of EFCFA (by October 15, 2000), and significantly changed the rules regarding capital reserve account deposits and withdrawals.

"A board of education may, by resolution of the board: transfer undesignated general fund balance or excess undesignated general fund balance to the capital reserve account at any time during the budget year; transfer funds from the capital reserve account to the appropriate line item account for the funding of capital projects as contained in the district's long-range facilities plan; and transfer funds from the capital reserve account to the debt service account for the purpose of offsetting principal and interest payments for bonded projects which are included in the district's long-range facilities plan." (*N.J.S.A. 18A:7G-31c*)

The regulations (*N.J.A.C. 6A:26-9.1 et seq.*), provide procedures for capital reserve accounts (withdrawals, deposits, and transfers). The bulleted points below are highlights of that rule. Auditors should refer to the full text of the regulations at the web site <http://www.state.nj.us/njded/code/title6a/chap26/>. In addition, auditors should reference the NJ DOE guidance on Capital Reserve Accounting and Recording that was issued to districts and copied to the public school accountants on October 19, 2001.

- Funds in a capital reserve account must be used to implement the capital projects in the long-range facilities plan (LRFP). Withdrawals may not be used for current expense.
- Funds in a capital reserve account in existence prior to July 18, 2000 shall be utilized for the original purpose for which the funds were deposited (*N.J.A.C. 6A:26-9.1(h)*).
- The capital reserve account balance cannot exceed the amount needed to implement the capital projects in the LRFP not met by State support (*N.J.A.C. 6A:26-9.1(d)*; **this amount is required to be adjusted annually in the Quality Assurance Annual Report (QAAR)** (*N.J.A.C. 6A:26-9.1(d)1(i)*). "All excess amounts in the capital reserve account identified in the annual audit shall be reserved and designated in the subsequent year's budget." (*N.J.A.C. 6A:26-9.1(d)1(iii)*).

Capital Reserve Account - General Fund (continued)

Deposits:

- Upon submission of the LRFP, a district, by board resolution, may deposit additional funds into the capital reserve account through transfer of undesignated general fund balance or excess undesignated general fund balance anticipated in the recapitulation of balances in the budget. **Audited excess undesignated, unreserved general fund balance shall not be deposited into a capital reserve account and shall be reserved and designated in the subsequent year's budget pursuant to N.J.A.C. 6:19-2.5(c).**
- Interest earned on capital reserve funds in the account, including that earned on current year increases, must automatically be placed in the account. Failure to budget the interest does not change the requirement to deposit the interest earned in the account.
- Funds may be appropriated in the annual budget; such appropriation is outside the calculation of a district's budget cap. Deposits are not made for a specific capital project unless specific voter approval was sought and received.

Withdrawals for Local Amount of School Facilities Projects:

- Withdrawals for referendum authorized school facilities projects may be made if the capital reserve use and amount is identified in the approved referendum question.
- Withdrawals for a non-referendum school facilities project may be made, by board resolution, up to 110% of the local share less excess costs. Withdrawals must be transferred to the capital projects fund and accounted for separately with the corresponding EDA grant.

Withdrawals for Excess Costs or Other Capital Projects:

- Upon voter, board of school estimate, or capital project board approval, withdrawals may be made to fund excess costs of school facilities projects or other capital projects (need a separate Statement of Purpose in the advertised budget).
- Withdrawals for referendum approved other capital projects may be made if the capital reserve use and specific amount is identified in the approved question.

Withdrawals for Debt Service:

- A district, by board resolution, may withdraw and transfer funds to the debt service fund to offset principal and interest payments for bonded projects in the LRFP.

Capital Reserve - Accounting and Recording

District staff and auditors should refer to the memorandum and attachments that were distributed to districts and copied to the public school accountants on October 19, 2001. The following are highlights from that document.

- Activity during the year is recorded in the budgetary and asset accounts, not fund balance accounts.
- Adjustments to fund balance are recorded as part of the year-end closing entries.

Capital Reserve Account - General Fund (continued)

- The Capital Reserve Asset Account (10-116) is required to segregate the restricted capital reserve assets and is used during the year to record all activity.
- There is no requirement to open a separate bank account for this activity, however, it is practical to do so, given the requirements for recording interest.
- Interest earned on the money as it is spent down is an increase in the capital reserve asset account.

Auditor's Note – The June 30, 2002 balance sheet should reflect the actual balance at June 30, 2002 and not increases/withdrawals included in the 2002-03 budget. The department recommends footnote disclosure in the Comprehensive Annual Financial Report.

Pre-GASB 34 Model

The capital reserve account shall be reflected as both an asset (Capital Reserve Account) and a reserved fund balance (Reserved Fund Balance - Capital Reserve Account) on the annual audit's Combined Balance Sheet - All Fund Types and Account Groups (Exhibit A-1) in the general fund column and on the General Fund Comparative Balance Sheet (Exhibit B-1).

GASB 34 Model

The Capital Reserve account is reported in the *Balance Sheet* (Exhibit B-1) of the governmental funds statements as both an asset (Capital Reserve Account) and Reserved Fund Balance - Capital Reserve Account as in the pre-GASB 34 statements. In the district-wide *Statement of Net Assets* (Exhibit A-1) districts will include the balance of this account in the net assets section as "Restricted for: Other Purposes" in the governmental activities column.

Excess Surplus**3% Calculation**

Under CEIFA, all districts with approved commissioner spending growth limitation adjustments included in their 2002-03 budget must perform the 3% calculation. In the 2002-03 budget there were **eight** possible adjustments to a regular school district's spending growth limitation that allowed the district to exceed its prior year net budget growth beyond 3%; **five** "statutory" and three commissioner. Districts with approved commissioner spending growth limitation adjustments were approved with the condition that all projected June 30, 2002 general fund free balance in excess of 3% of the proposed 2002-03 general fund budget or \$75,000, whichever is greater, was appropriated. Exemptions to the 3% appropriation requirement were allowed for low spending districts (below \$**7,734** regular education per pupil – refer to calculation on page 191 of the 2002-2003 Budget Guidelines www.state.nj.us/deded/fp/guidelines.doc) that were not presenting a base budget with a tax increase. Districts exempted from the 3% appropriation requirement are subject to the 6% excess surplus calculation described below. Underestimations of surplus for the affected districts must be reserved and appropriated for property tax relief in the second subsequent original annual budget that is certified for taxes. Auditors are required to ensure that such reserves are established by the district for June 30, 2002 unreserved - undesignated general fund balances in excess of the approved level contained in the 2002-03 proposed budget. This calculation is required to be documented in the Audit Questionnaire. Section I of the Audit Questionnaire includes calculation worksheets specific for Abbott districts. **Abbott school districts should refer to The Abbott Addendum for detailed instructions on how to complete the excess surplus calculations.** Section 1B of the Audit Questionnaire includes calculation worksheets specific for Abbott districts. Amounts calculated in excess of 3% that have not been appropriated in the 2002-03 original budget certified for taxes must be reported as general fund "Reserved Fund Balance - Excess

Excess Surplus (continued)

Surplus” in the June 30, 2002 CAFR with appropriate footnote disclosure describing the nature of the amount. Footnote disclosure should also be made for amounts budgeted in the 2001-02 original budget certified for taxes. Lines are provided in the 2001-02 audit summary worksheet (Audsum) to collect the amount of surplus appropriated in the 2002-03 original budget certified for taxes and any surplus amount determined to be excess surplus. Additionally, information is being preloaded in the Audsum regarding limitations on unreserved, undesignated fund balances for those districts which applied for a Commissioner spending growth limitation adjustment in their 2002-03 budget and are subject to the 3% calculation as a result thereof and a related warning edit is included.

In the case of a defeated budget which is the subject of an application for restoration or required review, or in the certification of taxes in a failure to certify or failure to agree, the use of underestimates of surplus will be directed by the Commissioner, to 3%, if applicable. Auditors must still perform the applicable surplus calculations for these districts. Any adjustments required, as a result of Commissioner restorations made after the submission of the Audsum diskette, will be made by the department.

6% Calculation

Under CEIFA, almost all districts that do not have an approved commissioner spending growth limitation adjustment included in their 2002-03 budget must perform the 6% calculation as follows. Auditors are required to perform the calculation of excess surplus at June 30th in accordance with *N.J.S.A. 18A:7F-7* for all regular and county vocational school districts. Any audited excess surplus amounts calculated that have not been appropriated in the 2002-03 original budget certified for taxes must be reported as general fund “Reserved Fund Balance - Excess Surplus” in the June 30, 2002 Comprehensive Annual Financial Report and appropriated in the 2003-04 budget for property tax relief. Such amounts may not be deposited into a capital reserve account. Appropriate footnote disclosure should be made identifying the amount of fund balance appropriated in the 2002-03 original budget certified for taxes and amounts determined to be reserved for property tax relief during the audited excess calculation performed at June 30th.

Amounts included in the 2002-03 certified budget (reserved fund balance – excess surplus designated for subsequent year's expenditure) and any additional amounts reserved for appropriation in the 2002-03 original annual budget (reserved fund balance - excess surplus) must be separately reported in the Audsum diskette on the separate lines provided. The Audsum includes a warning edit for the calculation of excess surplus at June 30, 2002. Under, *N.J.S.A. 18A:7F-7d*, the commissioner may withhold State aid in an amount not to exceed the audited excess undesignated general fund balances for failure to comply with the required reservation and designation of the audited excess surplus.

A calculation was performed by the 2002-03 budget software in Supporting Documentation Item 9 using projected 6/30/02 surplus balances and revised 2001-02 budgeted appropriations. The software, via the edits forced the inclusion of the greater of the audited excess surplus at 6/30/01 or the calculated projected excess surplus at 6/30/02 in the 2002-03 budget as budgeted fund balance. The 6/30/02 audited calculation should be based upon June 30, 2002 total general fund expenditures net of TPAF Pension and Social Security amounts and amounts reported as “Assets acquired under capital leases (non-budgeted).” This calculation is also adjusted for any allowable adjustments such as impact aid, sale and lease-back and extraordinary aid, if applicable. The Impact Aid adjustment only applies to districts receiving Impact Aid and the amount that can be deducted as an adjustment generally is the amount recognized as Impact Aid revenue in the current year. The surplus used in the calculation is the total general fund surplus net of any reserve for encumbrances, capital reserve amounts, and any legal reserves that have not been appropriated in the 2002-03 budget. Adjustments for legal reserves not appropriated in 2002-03 must be supported by a board resolution establishing the legal reserve. In most cases, this adjustment will not be applicable since most legal reserves require appropriation into the next year's budget. Auditors are required to include the calculation of 6/30/02 audited excess surplus in the Audit Questionnaire and the

Excess Surplus (continued)

department requires footnote disclosure in the CAFR for those districts where excess surplus is reflected on the general fund balance sheet.

For districts with expenditures of \$100 million or less any unreserved/undesignated general fund surplus amounts in excess of the greater of 6% of general fund expenditures or \$75,000 (after allowable adjustments) is excess surplus. For districts with expenditures greater than \$100 million any unreserved/undesignated general fund surplus amounts greater than the sum of 3% of general fund expenditures in excess of \$100 million plus \$6,000,000 and allowable adjustments is excess surplus. Any excess surplus amount must be reserved for appropriation in the 2003-04 original certified budget.

As a reminder, districts with approved commissioner spending growth limitation adjustments in 2002-03 must perform the 3% calculation described above.

The following discussion and example illustrates the proper calculation of the 6% excess surplus:

Example: The school district had total general fund expenditures (Exhibit B-2 in CAFR) of \$7,500,000. Included in the general fund expenditures were “On-Behalf State Aid Payments” (TPAF Pension & Social Security) of \$405,000 and Assets Acquired Under Capital Lease of \$95,000. The district’s applicable excess surplus percentage was 6%. The district received \$3,000 in federal impact aid revenue. In the June 30, 2002 balance sheet the district had the following (refer to the fund balance classification example on the following page), \$44,900 reserved for encumbrances; \$9,000 legally restricted from an unexpended 2000-01 additional spending proposal and required to be designated in the 2002-03 budget for property tax relief; \$48,000 reserved June 30, 2001 excess surplus and required to be designated in the 2002-03 budget for property tax relief; \$200,000 unreserved and designated in the 2002-03 budget; and \$450,000 unreserved/undesignated **prior to calculating June 30, 2002 excess surplus.**

2002-03 Total General Fund Expenditures	\$ 7,500,000(a)	
Decreased by:		
On-Behalf State Aid Payments	(405,000)	
Assets Acquired Under Capital Leases	<u>(95,000)</u>	
Adjusted General Fund Expenditures	7,000,000	
Applicable Excess Surplus Percentage	<u>x .06</u>	
Subtotal	420,000	
Increased by:		
Allowable Adjustment	<u>3,000(b)</u>	
Maximum Unreserved/Undesignated Fund Balance		\$ 423,000
 Total General Fund fund balance (June 30, 2002)	 \$ 751,900	
Decreased by:		
Reserved for Encumbrances	(44,900)	
Legally Restricted – Designated for Subsequent Year’s Expenditures	(9,000)(c)	
Excess Surplus – Designated for Subsequent Year’s Expenditures	(48,000)(c)	
Unreserved -- Designated for Subsequent Year’s Expenditures	<u>(200,000)(c)</u>	
Total Unreserved/Undesignated Fund Balance		<u>450,000</u>
 Reserved – Excess Surplus (June 30, 2002)		 <u>\$ 27,000(d)</u>

Recapitulation of Excess Surplus as of June 30, 2002

Reserved Excess Surplus – Designated for Subsequent Year's Expenditures (Audsum line 10025)	48,000 (e)
Reserved Excess Surplus (Audsum line 10024)	<u>27,000 (f)</u>
Total Excess Surplus	<u>\$ 75,000</u>

- (a) Include Operating Transfer Out for food service transfers to cover the deficit.
- (b) This adjustment line is to be utilized for Impact Aid, Sale and Lease-back and Extraordinary Aid if applicable (refer to page II-10.3 for restrictions on inclusion of extraordinary aid).
- (c) The aggregate of \$257,000 represents the total amount of General Fund fund balance appropriated in the 2002-03 General Fund budget.
- (d) If this amount is negative enter zero (-0-).
- (e) Represents surplus generated in 6/30/01 and budgeted in 2002-03.
- (f) Represents surplus generated in 6/30/02 (will be required to be budgeted in 2003-04).

Special services school districts are subject to an excess surplus calculation in accordance with *N.J.S.A.* 18A:46-31, as amended. This calculation will be performed by the department during the tuition rate certification process. Do not perform the excess surplus calculation or report excess surplus for a special services school district.

Fund Balance Classifications

The proper presentation of fund balance is an important reporting issue. The fund balances of the governmental funds should be grouped under two main categories - reserved and unreserved. It is imperative that fund balances be properly categorized. Appropriate footnote disclosure should be made in the CAFR identifying the amount of fund balance appropriated in the 2002-03 original budget certified for taxes and amounts determined to be reserved for property tax relief during the audited excess calculation performed at June 30th.

GASB 34 Model

Districts will continue to use the existing fund balance classifications in the governmental funds Balance Sheet (Exhibit B-1) for purposes of calculating excess surplus. In the accrual basis Statement of Net Assets (A-1), there are three classifications of net assets: Invested in capital assets, net of related debt, Restricted net assets (with a line item for each fund in which the net assets are restricted), and Unrestricted. Auditors and district staff should refer to GASB 34, paragraphs 30 – 37 for further clarification of these classifications.

Auditor's Note – No appropriation of surplus after June 30, 2002 is to be reflected in the June 30, 2002 balance sheet as designated for subsequent year's expenditures. The department recommends footnote disclosure in the CAFR.

There are limited instances where the definition of reserved is met:

Fund balance - reserved for:

- The **reserve for encumbrances** represents that amount of fund balance related to orders issued in the current year that will be honored in the subsequent year. In general, for other than construction projects, that liquidation must be made within 60 to 90 days of year-end to be a valid reserve at June 30th. This should not include accounts payable, since those orders were charged as expenditures in the current year and should be included in the balance sheet as a liability.

Separate lines are provided in the Audsum diskette for the reserve for encumbrances at June 30th for the general fund and capital projects fund.

- The **capital reserve account** maintained in the general fund allows a district to accumulate funds for future capital projects. EFCFA was signed into law on July 18, 2000 and significantly affected the transactions in the capital reserve accounts (see Section II-10.11 for additional information on the capital reserve account).
- The **maintenance reserve account** is used to accumulate funds for the required maintenance of a facility in accordance with the EFCFA (*N.J.S.A.18A:7G-9*). EFCFA requires that upon district completion of a school facilities project, the district must submit a plan for the maintenance of that facility. All such plans must include a provision for a maintenance reserve fund. Auditors and district staff should refer to the regulations, *N.J.A.C.6:24-5.1*, for further guidance. There will be a separate line in Audsum for this account.
- The **reserved fund balance-legally restricted account**, which is shown in the reserved fund balance equity section, is used to report that portion of the general fund surplus that is legally reserved for specific purposes. This would include reserves established for register audit recoveries and restricted appropriations such as unspent funds from:
 - 1) Approved separate proposals
 - 2) Capital outlay for a district with a capital outlay spending growth limitation adjustment in 2001-02
 - 3) Sale/lease-back reserve
 - 4) Tuition adjustment

N.J.A.C. 6:19-2.5 Designation of general fund balances, and *N.J.A.C. 6:19-2.7, Adjustments of spending growth limitations* outline the procedures for legally restricted reserves. *N.J.A.C. 6:19-2.4(h), Additional spending proposals*, outlines the procedures for approved separate proposals which are unexpended or unencumbered at the end of the year. *N.J.A.C.6A:23-3.1(f) Method of determining tuition rates for regular public schools* outlines the procedures for the tuition adjustment reserve. A board of education, at the end of a contract year, can restrict fund balance in a legal reserve for tuition adjustments of up to 10% of the estimated tuition cost in the contract year, if the district anticipates a large tuition adjustment in the third year following the contract year. Full appropriation shall be made in the third year and any remaining balance shall be reserved and designated in the subsequent year's budget. The reserve for tuition adjustment is to be established at the end of the year and not to be anticipated at the time of budget development. Such adjustments shall be excluded from the net budget cap calculation.

The notes to the financial statements must contain a discussion of all legally restricted balances, including the amount, source and fiscal year in which it will be appropriated. A separate line is provided in the Audsum diskette for legal reserves - general fund. These balances, if determined prior to the adoption of the budget should have been anticipated in the 2002-2003 School District Budget Statement Advertised Recapitulation of Balances on line 1640, "Additional Balances Anticipated during FY 01-02" and line 1660, "Amount Budgeted in FY 02-03" in column 6, General Fund (Reserved) Legal Reserves. Amounts not anticipated in the 2002-03 budget must be shown as a legal reserve in the June 30th CAFR and appropriated in the 2003-04 budget.

- The **reserved fund balance – excess surplus – designated for subsequent year's expenditures** represents the audited excess surplus from the prior year budgeted in the subsequent year. Under CEIFA, any June 30, 2001 audited excess surplus that was appropriated in the 2002-03 original budget certified for taxes must be reported as reserved general fund balance in the CAFR. Audsum line 10025 has been provided for reserved fund balance - excess surplus – designated for subsequent year's expenditures.

The following discussion and example illustrates the proper presentation of excess surplus – designated for subsequent year’s expenditures.

Example: The school district had audited excess surplus as of June 30, 2001 of \$48,000 and an unexpended 2001-2002 additional spending proposal of \$9,000. The district appropriated \$257,000(a) in the 2000-01 original budget (comprised of the \$9,000 unexpended 2000-01 additional spending proposal; \$48,000 audited excess surplus from June 30, 2001; and \$200,000 of unreserved/designated surplus). As of June 30, 2002 the district had an additional \$27,000(b) of excess surplus. The \$27,000 is required to be appropriated in the 2003-04 original budget for property tax relief. (See the page II-10. 17 for the detailed calculation of the \$27,000 excess surplus).

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Fund Balances:		
Reserved:		
For Encumbrances	\$ 44,900	\$ 50,000
Legally Restricted – Unexpended Additional Spending Proposal		9,000
Legally Restricted – Designated for Subsequent Year’s Expenditures	9,000 (a)	
Excess Surplus	27,000 (b)	48,000
Excess Surplus – Designated for Subsequent Year’s Expenditures	48,000 (a)	
Unreserved:		
Designated for Subsequent Year’s Expenditures	200,000 (a)	235,000
Undesignated	<u>423,000</u>	<u>415,000</u>
	<u>\$ 751,900</u>	<u>\$ 757,000</u>

- The **reserved fund balance – excess surplus** represents audited excess surplus generated in the current audit year. Any amount calculated as excess surplus generated during the year ended June 30, 2002 that has not been appropriated in the 2002-03 original budget certified for taxes must be reported as reserved general fund balance in the CAFR. Appropriate footnote disclosure should be made in the notes to the financial statements including the amount and an explanation that the amount represents surplus determined to be reserved and designated in the 2003-04 budget during the audited excess calculation performed at June 30th in accordance with *N.J.S.A.* 18A:7F-7. Audsum line 10024 is used to report reserved fund balance - excess surplus. Please note that the Audsum includes a warning edit for the calculation of excess surplus at June 30, 2002. Additionally, information is being preloaded regarding limitations on unreserved, undesignated fund balances for those districts which applied for a Commissioner spending growth limitation adjustment in their 2002-2003 budget and are subject to the 3% calculation as a result thereof. Auditors are required to include the calculation of excess surplus in the Audit Questionnaire.
- The **reserved fund balance – adult education programs** is a required separate restricted account. *N.J.S.A.* 18A:50-6 requires that surplus generated from the excess of receipts from donations, tuition fees, or from any source other than local taxation over the actual cost of the maintenance and operation of the district’s adult education program remain in a separate account for the restricted fund balance. The account should be shown in the reserved fund balance equity section as reserved fund balance - adult education programs. A separate line is provided in the Audsum diskette for reserved for adult education programs - general fund.

Fund Balance - Unreserved

All other fund balance is considered **unreserved** and is considered in the excess surplus calculation. Districts may reflect management's intent for use of the unreserved fund balance as separate lines in the equity section of the balance sheet under the heading unreserved fund balance. Each designation should be explained in the notes to the financial statements. All other unreserved fund balance should be presented as unreserved - undesignated. The amount of unreserved fund balance that has been included in the upcoming year's general fund budget as budgeted fund balance should be reported in the unreserved fund balance equity section as **designated for subsequent year's expenditure**. If the budgeted fund balance amount included in the certified budget contains an amount that has been shown in the reserved fund balance section of the balance sheet (refer to the example on the previous page), do not include it as part of the unreserved designated for subsequent year's expenditure amount. **Separate lines are provided in the Audsum diskette for unreserved - undesignated general fund balances and unreserved fund balance that is designated for subsequent year's expenditure. Include on the designated fund balance line only those amounts which were included in the 2002-03 certified budget as budgeted fund balance on line 121 that has not already been included on a reserved fund balance line. Include in the unreserved - undesignated line all other unreserved fund balance.**